

**Vote-Buying, Poverty and Democracy:
The Politics of Social Programs in Mexico, 1989-2006***

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September, 2006

(Draft, please do not quote, comments welcome)

* Funding for this project was provided by the Center for Democracy, Development and the Rule of Law, the Department of Political Science Munro Fund at Stanford University, the VPUE grant at Stanford University, and the Rockefeller Foundation Bellagio Center. Chapters and fragments of the project were presented over the years in numerous venues. We thank in particular participants in seminars at UCLA, Berkeley, the World Bank, Duke and the Social Science History Institute and the Political Science Department at Stanford. Papers were presented at the Midwest Political Science Association Meetings, the American Political Science Association Meetings and the Latin American Studies Association Meetings. Superb research assistance was provided by Sandra Pineda, Marcela Gómez, Arianna Sánchez, Lorena Becerra, Jorge Bravo, Katherine Kelman, Ana Gardea, Emmerich Davis, and Hamilton Ulmer. Of course all errors remain our responsibility.

ABSTRACT

This book analyses the political economy of social assistance programs in Mexico from 1989 until 2006. This period has witnessed impressive transformations. On the one hand, the long-lasting rule of the *Partido Revolucionario Institucional* (PRI) came to an end in 2000 and Mexico went through a transition to democracy that entailed a fundamental change in the workings of the basic institutional apparatus. On the other hand, the three administrations during this period dramatically changed the existing social assistance programs designed to improve the well-being of the poor and mobilize their electoral support. There has been an important reduction of extreme poverty during the last decade. However, social programs continue to be criticized for their presumed manipulation by politicians seeking to obtain electoral support. This book analyses the effectiveness of the various social assistance programs in Mexico and the political logic driving them.

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* We will send these chapters by the beginning of next week

Chapter 1

The Struggle Against Poverty

1. Introduction.

This chapter examines the creation of the social assistance programs that are the subject of this book. Government transfers in Mexico have often failed to reach the poor. As in most other Latin American countries, social welfare transfers were historically “truncated” because the overwhelming of them were tied to labor market participation (Lindert, et al, 2006). When designed explicitly to target the poor, government transfers have tended to be fragmentary and have had the consequence of trapping beneficiaries in a vicious cycle of dependence, rather than allowing them to escape poverty. However, the last two decades have witnessed a fundamental redesign of social transfers with the introduction of programs which explicit objective was to target the poor. This chapter discusses the emergence of these social assistance programs as a parallel regime next to the “truncated welfare state.” According to de Janvry (2006), there are three ways in which governments can help the poor. First, they can provide public works that impact collective well-being through the provision of public goods. Second, governments can provide direct income transfers to individuals. Third, public policies can support productive activity. In this book we concentrate in the first two forms of government action.

The chapter is organized as follows. The first section discusses the “truncated welfare” state and some of the major social assistance programs –especially land reform – that existed prior to the introduction of the new programs in the 1990s. The second section discusses how the debt crisis of the 1980s and the market-oriented reforms that

followed changed political incentives. Electoral competition became stiffer, which generated political incentives to pay more attention to the interests of the poor in a context of more stringent budget constraints. The third section discusses the introduction of the National Solidarity Program (Pronasol), the social fund created by President Carlos Salinas de Gortari (1989-1994). The fourth section talks about the introduction of Conditional Cash Transfers (Progresa/Oportunidades) during the administrations of Ernesto Zedillo (1994-2000) and Vicente Fox (2000-2006). The fifth section discusses how Pronasol's public works projects were decentralized with the FISM (Social Development Municipal Fund). We end up mapping all the social assistance programs discussed in the chapter according to two traits –the degree to which they target the poor and the extent to which selection and reversibility criteria are discretionary. The general pattern that we observe is a movement away from universalistic programs that were unable to reach the poor, to more targeted social assistance programs, on the one hand, and the gradual abandonment of discretionary programs that were highly politicized to formula-based ones.

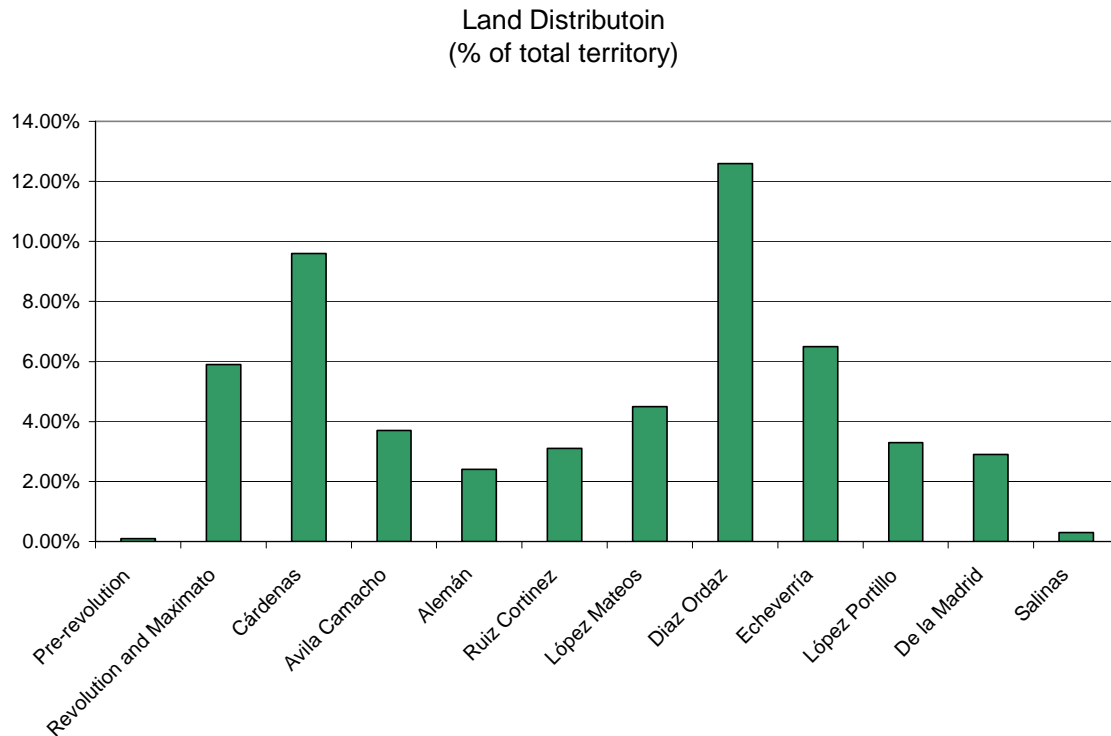
2. Mexico's truncated social welfare

Mexico is one of the most unequal countries in the world. Such inequality is also reflected in a high incidence of poverty. Economists generally agree that economic growth is essential for poverty reduction (Ravallion, 1999). Mexico consistently grew at average annual rates of 6 percent since the 1930s until the early 1980s. However, sustained economic growth prior to the 1980s benefited the poor less than proportionally. Despite their revolutionary rhetoric, Mexican governments led by the Partido

Revolucionario Institucional (PRI) failed to implement social programs that would help the poor.

With the exception of public education, social programs were either rather regressive (World Bank, 2004), or when targeted to the poor, they were designed in such way that they trapped recipients into a vicious cycle of dependence. At the time when Mexico was primarily an agricultural economy, the most important asset generating programs for the poor –land reform, subsidized credit and production inputs, and price supports - were designed to keep a political clientele dependent on the official party’s clientelistic networks for their survival. The political pact that marks the end of the revolution –the 1917 constitution –established that land “originally belonged to the state,” which would be in charge of carrying out land reform. Land was to be granted to peasants in the form of *ejidos* –communally owned land tenure arrangements. Land distribution became a form of permanent social policy. Figure 1 reports the percentage of the total territory distributed during the last century.

Figure 1.1 Land Distribution in 20th Century Mexico



Over the years, sixty percent of Mexico’s territory was distributed. Every president distributed large quantities of land, until Carlos Salinas (1988-1994) declared land reform to be over.¹ To get the land, peasants first needed to petition the governors of the states, whose decisions were then reviewed by the federal government. The president was the ultimate authority in this process that on average lasted ten years (Walsh-Sanderson, 1984). A highly discretionary process, land reform closely followed the presidential cycle, with more land distributions systematically concentrating during presidential election years (Magaloni, Diaz-Cayeros, and Weingast, 2006). Beneficiaries of land reform could not give land as collateral –*ejido* land was collectively owned and

¹ However, the *quality* and *size* of the land distributed dramatically decreased with the passing of time – President Lázaro Cardenas (1934-1940) distributed large amounts of excellent quality land while Diaz Ordaz (1964-1970) and Luis Echeverría (1970-1976) gave away mostly rugged mountains and desert (Walsh-Sanderson, 1984).

could not be sold. This left peasants fully dependent upon publicly subsidized and administered credit, which was also rationed according to political criteria. Most irrigation projects were geared toward large-size productive farms in the North that did not benefit the poorest landholders. These policies not only gave the PRI numerous instruments to control peasants, but had negative effects on economic development. By the 1960s, Mexico had become a net importer of food stuff and the agricultural sector was stagnant.

Land reform became exceedingly politicized –it was the main instrument employed to control peasants and to mobilize them to the polls. “Federal regulation of land tenure arrangements (including the promise/threat of land expropriation and distribution under the terms of postrevolutionary agrarian reform legislation), management of extensive credit and marketing facilities, and the hierarchical organization of rural producers (especially agrarian reform beneficiaries) through “official” party-affiliated associations [...] all provided governing elites with strong political controls –and for several decades a reservoir of real popular support –in the countryside” (Middlebrook, 2004: 32).

Poverty in Mexico is much higher in rural than in urban areas. Table 1.1 shows estimates of the recent evolution of poverty as calculated by the Technical Committee to Measure Poverty.² These estimates use a common methodology ensuring comparable poverty lines, on the basis of data from the Encuesta Nacional de Ingresos de los Hogares (ENIGH), the household surveys periodically done by the Mexican statistical office, INEGI. The methodology calculates three types of poverty lines, one related to nutritional

² The technical committee is formed by a group of independent experts, including Fernando Cortes (Colmex), Rodolfo de la Torre (UIA), Luis Felipe López Calva (ITESM), Graciela Teruel (UIA), Luis Rubalcava (CIDE), Enrique Hernández Laos (UAM) and John Scott (CIDE).

status (pobreza alimentaria), the second regarding basic capacities (fulfilling nutrition, health and education, called pobreza de capacidades), and the third one regarding assets, defined as basic capacities plus other necessities involving clothing, transportation and shelter (pobreza de patrimonio). The table reports the breakdown of poverty measured as a head count index in the urban and rural settings.

Table 1.1 Evolution of Poverty in Mexico

	URBAN			RURAL		
	Nutrition	Capacities	Assets	Nutrition	Capacities	Assets
1992	13.5	18.4	44.0	35.6	41.8	65.0
1994	9.7	17.1	43.6	36.8	46.2	72.0
1996	26.5	35.0	61.9	52.4	60.2	80.8
1998	21.3	29.0	55.8	52.1	57.6	74.9
2000	12.6	20.7	43.8	42.4	50.0	69.3
2002	11.4	16.0	42.0	34.8	43.8	67.5
2004	11.0	17.8	41.0	27.6	35.7	56.9

Source: Cortés, et. al. 2005; Sedesol, 2005; Comité Técnico Para la Medición de la Pobreza, 2005.

The headcounts show that in spite of a reduction of poverty in the last few years, destitution is quite persistent, particularly in the rural areas. Thus, despite decades of extensive land reform and transfers designed to “help” the poor, extreme poverty is disproportionately concentrated in the rural sector. To escape poverty, massive migration to cities and the US have constituted the main avenues of hope. By the late 1970s, Mexico had become predominantly urban, with more than sixty percent of the population living in cities. As a result of the rapid rural-urban migration, extreme poverty also spread to the cities, where slums began to mushroom. However, during the 1960s and 1970s social policies to combat urban poverty were fragmentary and largely inexistent, leaving a large proportion of the urban poor without access to basic services such as water,

electricity, sewage, and health (Ward, 1986). The provision of such services and the regularization of land in the urban fringes were mediated by PRI politicians through a similar clientelistic brokerage system as the one characterizing the countryside (Cornelius, 1973).

Since the early 1940s, Mexico began to put in place social insurance schemes tied to participation in the formal labor market. Created in 1943, the IMSS (Mexican Institute of Social Insurance), provides insurance to non-government workers. IMSS includes individual retirement funds, disability and life insurance for workers, and it also provides health insurance and health services. The 1997 reforms transformed the pension fund in IMSS from a pay-as-you go system to a system where beneficiaries put their contributions into individualized accounts that are managed mostly by private companies (called AFORES, Associations for Retirement Funds). Similar benefits are provided to state employees through the ISSSTE (Social Security Institute for State Employees), which also gives housing finance assistance from FOVISSSTE (ISSSTE housing Fund). INFONAVIT (Institute for Workers Housing Fund) provides subsidized housing to private sector workers.

A common feature in Latin America and the Caribbean, the restriction of social insurance to formal sector workers has led to the characterization of the region's social protection systems as "truncated welfare states" because the majority of the population, especially the poor, do not receive these benefits (Ferranti, et al, 2004; Fiszbein, 2004; Rawlings et al, 2004). Moreover, despite formal membership contributions, the social insurance schemes have run considerable deficits that have been financed by tax revenue. We concur with Rawlings *et al* (2004) in that these social insurance programs should be

thought of as “public transfers” because they are effectively financed by tax revenue. In their comparative study the authors calculate that the average net pension subsidies as a percentage of total benefits paid out of social insurance going to IMSS and ISSSTE was 84 percent, the second largest among the eight Latin American countries they studied.³

Despite massive subsidies, much of the population in Mexico remains without access to the formal insurance system. The share of households with at least one family member in the social security system is 43 percent, which means that the majority of the population is uninsured (Salud: México 2002). The insured are disproportionately among the non-poor. According to calculations by the World Bank based on income surveys, 75 percent of the non-poor, 39 percent of the moderately poor and *cero percent of the extreme poor are covered either by IMSS or ISSSTE* (World Bank, 2004: xliii). Thus, a key feature of the welfare state in Mexico is that it excludes the poor.

The Mexican “truncated welfare state” did not only exclude the majority of the population, but was also colonized by interest groups affiliated to the official party. The CTM (Confederation of Mexican Workers), the SNTE (Education Workers National Union) and the FSTE (Federal Union of State Employees) controlled the institutions in charge of social protection and had veto power over any changes in social policies (Trejo and Jones, 2003). These meant that the Mexican welfare state was not only limited to formal workers, but that *effective access* to most of its benefits and services could often be rationed according to political criteria. For instance, to obtain housing from INFONAVIT, workers had to be affiliated with the official labor union sector and to be in good terms with union leaders. The SNTE was the largest union in Latin America and its

³ The countries were Argentina, Brazil, Chile, Colombia, Dominican Republic, Guatemala, Mexico, and Peru.

political clout was such that no decisions could be adopted regarding education policies without their consent. IMSS and ISSSTE benefits were harder to ration, although access to health services and the quality of such services varied considerably.

Despite these limitations in social assistance programs, there were some important attempts to expand social assistance to the broader population. Public education is perhaps the clearest example. Mexico has achieved close to universal primary education and a rapid expansion of lower secondary education. However, the *quality* and terminal efficiency of education varies considerably by income, “25-65 years olds living in the top 10% of households having 12 years of education, compared with 3.2 for those in the bottom 10%” (World Bank, 2005: 42). Mexican governments have also attempted to provide health services to the unaffiliated poor through direct administration and building of hospitals by the SSA (Ministry of Public Health). To cover this population, particularly the rural poor, PRI governments attempted to “sub-contract” health services from the IMSS through programs such as IMSS-Coplamar and IMSS-Solidaridad. However, converge of health services to the poor is very limited. More recently, the Vicente Fox (2000-2006) administration of the Partido Accion Nacional (PAN) introduced the *Seguro Popular*, a form of means-tested insurance targeted to the non-covered population.

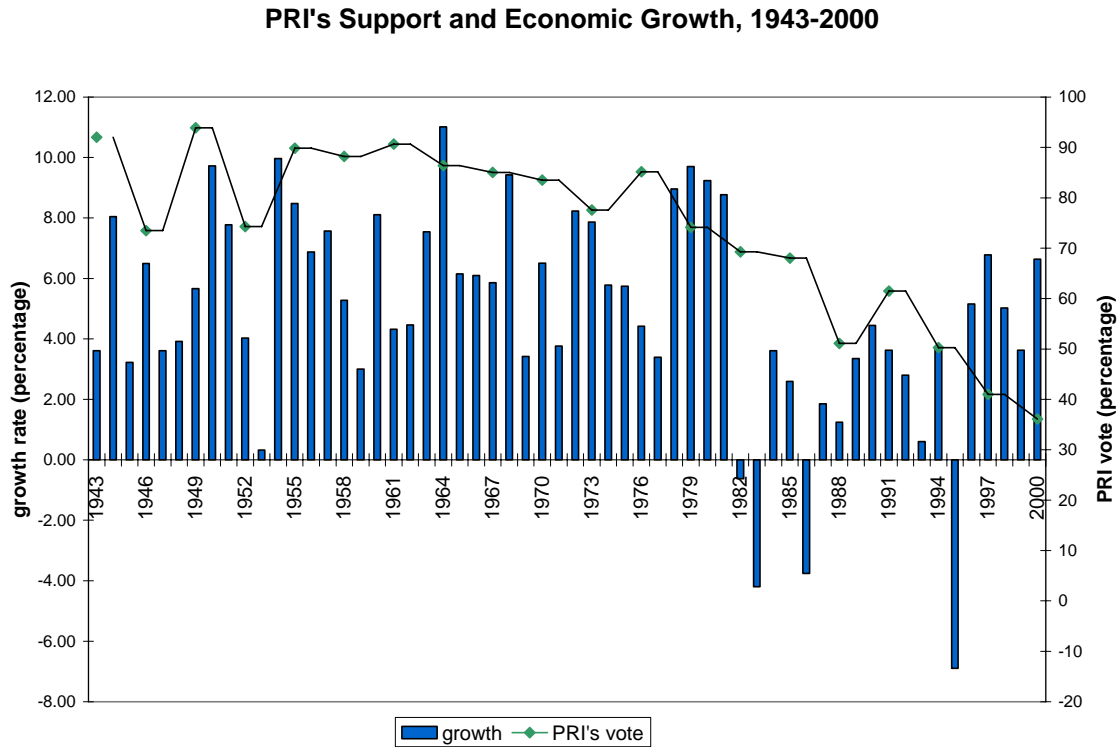
3. The economic recession and the era of structural adjustment

The PRI was a collusive pact among ruling politicians based on the distribution of patronage and spoils. The resources to pay the hegemonic coalition originally came from the landowners, who as a class were destroyed or significantly weakened during the

revolution. Sustained economic growth since the 1940s generated resources to distribute among the ruling class and also support from the population. As long as the pie kept growing, it was possible to sustain this equilibrium (Magaloni, 2006).

There is consensus in the literature on Mexico that the efficacy of the “social pact” began to erode in the 1980s and 1990s, with the economic recession and the market-oriented reforms that followed. These policies implied a fundamental restructuring of the traditional alliance of interests. Indeed, as Dresser (1994a) explains, “the system of resource allocation that evolved in Mexico during the era of Import Substitution Industrialization (ISI) created a broad-based ‘populist distributive coalition’ of organized interestsThe coalition flourished on state business such as public credit, production subsidies, tariff protection, tax incentives and purchasing contacts” (145). Since 1982, Mexico witnessed economic stagnation and serious volatility; two consecutive recessions –the debt crisis and the peso crisis; and a brutal deterioration of real salaries during the worst years of these recessions. Figure 1.2 graphs the growth rate of the Mexican economy and the PRI’s vote. The autocratic regime began to experience a gradual deterioration, which culminated in the defeat of the PRI in 2000 as a result of the structural transformations and the economic decline after the 1980s.

Figure 1.2



Source: Magaloni, 2006

Combating poverty in a low-growth economy is extremely difficult. Not only employment and other income generating activities are sluggish but public resources available for helping the poor are insufficient. Real government expenditure in Mexico in fact suffered a dramatic cutback during the post-1982 period. Capital and current expenditures suffered disproportionate cuts (Magaloni, 2006a). There is some evidence that income inequality also worsened during this period. Between 1984 and 1992 there was a “steep fall in the income of ninety percent of the population in favor of the wealthiest ten percent” (Trejo and Jones, 2003). Extreme and moderate poverty also increased during the debt crisis of the 1980s, and later during the Peso Crisis of 1994-96. “The crisis of 1994-95 constituted a massive setback. Extreme poverty rose from 21% in

1994 to 37% in 1996. Between 1996 and 2002 the proportion of extreme poor fell by 17 percentage points to 20%, just one percent below the pre-crisis” (World Bank, 2004: xxi). As consequence of the crisis poverty in urban areas doubled; while in the countryside more than half of the population fell into the extreme condition of nutritional poverty (Székely, 2005).

The poor were predominantly concentrated in the countryside. Most rural communities lacked basic services such as electricity, drinking water, and roads; suffered from hunger, malnutrition and poor quality education; and had no access to social insurance and health services. The “permanent land reform” process had paradoxically left most rural inhabitants trapped with poor quality land of unprofitable size and no irrigation, transport and highways (Magaloni, Diaz-Cayeros and Weingast, 2006).

Despite the grim prospects generated by economic stagnation during the last decades, Mexico has witnessed an important political transformation that has produced some optimism in the struggle against poverty. The country went through a prolonged transition to democracy that entailed a fundamental change in the workings of the basic institutional apparatus and state-society relations. This process culminated in the defeat of the long-lasting rule of the PRI in 2000. More electoral competition during these last decades *and* alternation of political power in office, as we will show in this book, have generated incentives to redesign social assistance and increase government spending targeted to the poor, whose numerous votes have become essential for the political survival of some political parties. Below we discuss the introduction of the new social assistance programs during these years.

4. Pronasol and electoral patronage, 1989-1994

Beginning in 1989, Mexican governments dramatically redesigned the existing social assistance programs intended to improve the well-being of the poor. In 1988 the hitherto stable hegemonic party regime experienced a sharp electoral shock which led to a radical shift in social policy, leading to the design of new poverty relief programs. The PRI's electoral losses were widespread, and the party's electoral returns were particularly scanty among the urban poor. There is no doubt that the Mexican PRI committed electoral fraud in the 1988 presidential elections. The official results gave the victory to the PRI's presidential candidate, Carlos Salinas, with 50.7% of the vote over 32.5% given to former PRI politician, Cuauhtémoc Cárdenas, of the National Democratic Front (FDN), which eventually transformed into the Party of the Democratic Revolution (PRD). There is considerable debate, however, as to whether the fraud was necessary for the PRI to retain the presidency or if it was rather employed to manufacture a 50% threshold for the PRI (Castaneda, 2002).

The electoral shock resulted from a combination of factors. First, the economic recession was decisive in the onset of an electoral dealignment –low wages, high inflation, currency instability, and underemployment in the cities led voters to start to defect to the opposition. Second, the market-oriented reforms restricted the availability of state resources that were necessary to buy-off the loyalty of the various ruling party factions and the citizens. Third, the 1988 elections made it clear that the PRI had failed to build solid linkages with the growing masses of the *urban poor*. The PRI had solid

clientelistic linkages with the rural poor that allowed this party to keep them loyal.⁴ Although this party had also attempted to build clientelistic linkages with the migrant poor in the city slums and among informal sector workers (Cornelius, 1975) by offering property titles, subsidized food, work opportunities, and licenses for selling merchandise in the streets, among other inducements, the 1988 elections made it evident that these networks had failed and that the urban poor were no longer loyal to the PRI.

President Carlos Salinas (1988-1994) thus established the Programa Nacional de Solidaridad (Pronasol) with the explicit intent to combat poverty.⁵ However, the program was masterfully designed, as we demonstrate in this book, to reestablish the PRI's electoral dominance. Pronasol sought to establish alternative party-society relationships that would go around the failing corporatist mechanisms and state bureaucracies. As Dresser (1994a) explains, the economic crisis of the 1980s and the market-reforms that followed “affected most systems of representation and the economic functions associated with them; as a result, their traditional members were recast by the state elite essentially as consumers of Pronasol’s benefits –electricity, scholarships, paved streets—instead of beneficiaries of traditional state protection in the form of wage increases, subsidies, and agrarian reform” (147).

Pronasol was at least in part a demand-driven program for poverty relief. It targeted funds directly to municipalities based on proposals from community organizations and municipal governments. In order for a project to receive Pronasol funds, matching grants were always required from state and municipal governments,

⁴ We define what we refer to clientelistic linkages in chapter 4. There is extensive literature in political science about this topic that is also cited in that chapter.

⁵ Salinas wrote his dissertation on the impact of government programs on political behavior in the state of Puebla (Salinas, 1982).

along with resources provided in-kind by the recipient community. However, in practice Pronasol was a highly *presidentialist* program in which the allocation of transfers to communities or individuals could be decided with almost absolute discretion by the office of the president (Bailey, 1994). Pronasol soon became the cornerstone of the government's social policy. Its resources represented, on average, 1.18 percent of GDP each year. Many of the pre-existing social assistance programs were reclassified into Pronasol.

Table 1.2 provides a description of the more than twenty Pronasol programs. The program included investment in health (mostly the building of hospitals); education (schools, scholarships, and pensions for teachers); urban development programs (water, electrification, housing, sewages, and land titles); roads and highways; “social and productive programs” –most of these were discretionary cash transfers and credit to women, fisheries, coffee growers, etc; benefits to indigenous communities; and municipal funds, among other.

Table 1.2: Programs in the Programa Nacional de Solidaridad (Pronasol).

1. Programs for social family welfare (beneficio social familiar)	
<i>1.1 Health</i> 1.1.1 Programa IMSS- Solidaridad 1.1.2 Acuerdo Solidaridad – Secretaría de Salud 1.1.3 Hospital digno	<i>1.2 Education Infrastructure</i> 1.2.1 Escuela digna 1.2.2 Niños en solidaridad 1.2.3 Escuela en solidaridad 1.2.4 Maestros jubilados 1.2.5 Apoyo al servicio social
2. Programs for social community welfare (beneficio social comunitario)	
<i>2.1 Urban development</i> 2.1.1 Agua potable y alcantarillado 2.1.2 Electrificación 2.1.3 Urbanización 2.1.4 Espacios deportivos 2.1.5 Proyectos ecológicos 2.1.6 Vivienda 2.1.7 Regularización de la tenencia del suelo 2.1.8 Alimento y abasto	<i>2.2 Road construction.</i> <i>Programa nacional de solidaridad en la infraestructura carretera y de caminos rurales</i>
3. Special programs (especiales)	
<i>3.1 Social</i> 3.1.1 Correos y telégrafos 3.1.2 Programa paisano 3.1.3 Solidaridad penitenciaria 3.1.4 Jornaleros agrícolas migrantes 3.1.5 Mujeres en solidaridad 3.1.6 Mujer indígena	<i>3.2 Support to Indian Communities (Programas de apoyo a comunidades indígenas)</i> 3.2.1 Desarrollo económico 3.2.2 Bienestar social 3.2.2.1 Salud 3.2.2.2 Ayuda alimentaria directa a grupos de riesgo en comunidades indígenas en extrema pobreza 3.2.2.3 Educación 3.2.2.4 Fomento al patrimonio cultural 3.2.2.5 Procuración de justicia 3.2.3 Brigadas de solidaridad
4. Productive programs (productivos)	
4.1 Fondos para la producción 4.2 Apoyo a cafecultores 4.3 Apoyo a productores forestales 4.4 Pescadores ribereños y acuacultura	4.5 Solidaridad para la pequeña minería 4.6 Fondo nacional de empresas de solidaridad 4.7 Solidaridad obrera
5. Program with territorial reach (de alcance territorial)	
5.1 Fondos municipales	5.2 Programas de desarrollo regional

Source: Consejo Consultivo del Programa Nacional de Solidaridad (1994).

When Pronasol was implemented, it was regarded by policy analysts and the development community, including the World Bank, as an example of a successful “social fund” or community-led poverty reduction program similar to those introduced in many parts of the developing world, including Bolivia’s FIS (Social Investment Fund) or Peru’s FONCODES (Fund for Social Compensation and Social Development) (Schady, 2002; Rawlings, et al, 2004). These types of social funds have become one of the main tools of community-led poverty reduction in the last decades. One of their key theoretical

advantages is that they encourage participation of communities and local institutions in identifying and carrying out small-scale social infrastructure projects such as school and health clinics. Through a systematic analysis of social funds in Bolivia, Peru, Armenia, Honduras, Nicaragua, and Zambia, Rawlings *et al*, (2004) demonstrate that these funds can achieve broad coverage. These authors also debunk the myth that poor areas are incapable of obtaining resources from these demand-driven programs. “The geographic distribution of social spending was progressive in all six countries studied: poor districts received more per capita than wealthier districts. Moreover, the very poorest districts received shares that exceeded their share of the population” (p. xviii). Their study also shows that social fund investments led to better-quality infrastructure and services and to improved access to piped water supply and sewage.

However, Pronasol has been severely criticized as a highly politicized program primordially designed to boost the PRI in the elections rather than helping the poor (see Dresser, 1991; articles in Cornelius *et al*, 1994; Hiskey, 2002; and Bruhn, 1997). Most analyses of Pronasol are either qualitative or anecdotal. With the exception of our own work,⁶ the few existing systematic empirical assessments of the program have been either carried out at an inappropriate level of analysis –focusing on states rather than municipalities (Molinar and Weldon, 1994 and Bruhn, 1997)-- or when focusing on municipalities, they only cover a very limited sample (Hiskey, 2002).

Thus, despite the heightened debate about Pronasol and its international attention, the effectiveness of the program as a mechanism for improving welfare has remained largely unmeasured. This study is the first to conduct a systematic evaluation of Pronasol using municipal-level data for the entire country during the five years of life of the

⁶ Magaloni *et al*, 2006 and Magaloni, 2006.

program. We assess Pronasol's *policy effectiveness* in two ways: first, we discuss its targeting efficiency or the extent to which Pronasol was assigned to the poor. Our results demonstrate that although poor municipalities received higher shares of transfers, Pronasol was not well targeted to the poorest. Second, we evaluate the impact of Pronasol in terms of its success in improving public infrastructure for the poor. Our results demonstrate that the social welfare effects of the program were disappointing.

Our results about the limited welfare effectiveness of Pronasol lead us to ask the following question: why do politicians who claim to represent the interest of the poor design social assistance programs that produce mediocre welfare effects? To answer this question, our book uncovers the *political logic* behind the geographic allocation of Pronasol. We are able to systematically test a range of theories explaining the political distribution and geography of discretionary transfers, including those that claim that politicians disproportionately benefit “swing voters” (Dixit and Londregan, 1996; Stokes, 2005) versus those that claim that “core supporters” are favored (Cox and McCubbins, 1986). Our theory and findings in this book reconcile these models. We argue that politicians are motivated by both long and short-term considerations –that is, to sustain their electoral coalitions over time and to win elections.

Unlike extant literature, we conceive partisan loyalty as conditional, the product of the history of interactions and past redistributions. Because core supporters will not long endure their party delivering benefits to outsiders, our theory states that discretionary, private transfers should primordially be targeted to core voters. Public goods should instead be employed to cater swing voters where electoral competition is stiffer. Since core supporters also benefit from infrastructure projects, these are not destabilizing over

the long run. Thus, in our theory clientelism or *the distribution of private, excludable discretionary transfers* is a strategy of electoral mobilization designed to *lock-in the poor in a long-term relationship of material dependence*. Public goods, instead, need to be employed to build broader coalitions (see also Chhibber and Nooruddin, 2004). However, since investments in public goods are riskier, the implication of our theory is that they will generally not be favored by politicians who face moderate levels of political competition, whose core voters are poor, and who are risk adverse.

Thus, our theory and results suggest that more political competition led the PRI to pay more attention to the interests and needs of the poor, although this party used expenditures to reinforce clientelistic linkages with its supporters. According to Kitschelt and Wilkinson (2006) a clientelistic exchange relation is characterized by:

[First], a contingent direct exchange that concerns goods from which non-participants in the exchange can be excluded. Second, such exchanges become viable from the perspective of politicians, if voter constituencies respond in predictable fashion to clientelistic inducements without excessive opportunism and free riding. Third, short of constituencies' spontaneous and voluntary compliance with the clientelistic deal, politicians can invest in organizational structures to monitor and enforce clientelistic exchanges (p. 76).

These authors argue that democratic accountability in such a system does not result from the success of governments in delivering collective goods (economic growth, jobs, political stability) or improving welfare by establishing social insurance schemes from which broad categories of citizens can benefit. Clientelistic accountability "is a transaction, the direct exchange of a citizen's vote in return for a transfer from which the voter can be excluded if he or she fails to deliver her vote" (p. 76).

All of Pronasol's transfers implicitly could be employed for the purpose of trading benefits for electoral support. However, Pronasol's more than twenty programs can be

classified in terms of first, whether the nature of the transfer allowed politicians to effectively *exclude opposition voters*, and second, whether politicians could *withdraw the transfer* to punish voters who failed to deliver their votes. We argue that a large proportion of Pronasol programs did not allow the PRI to reinforce clientelistic linkages. For example, investments in sewage, pipe water, roads and the construction of schools and health clinics did not reinforce this form of political linkage for two reasons. On the one hand, these transfers were non-excludable public goods from which everyone in the locality, including opposition backers, benefited. On the other hand, politicians couldn't withdraw these benefits if voters failed to deliver their support – unless, of course, they tore down the infrastructure.

However, programs that delivered scholarships for children, subsidized credit, and cash handouts, to name a few, worked at reinforcing clientelistic linkages between voters and politicians. Since these transfers were targeted to individuals, opposition voters could more easily be excluded from the program. Furthermore, given that Pronasol's yearly allocations were *discretionary and reversible*, the PRI could credibly threaten to withdraw these benefits if voters failed to deliver their votes. "It is the contingency of targeted benefits, not the targeting of goods taken by itself, that constitutes the clientelistic exchange" (Kitschelt and Wilkinson, 2006: 24).

A political party requires a dense organizational network to enforce clientelistic linkages (Stokes, 2006). The key challenge for a party is to minimize voter opportunism - that voters receive the transfer and vote for a different party. The PAN explicitly prompted voters to behave in this fashion with its creative campaign slogan in the 1990s: "*agarra lo que te dan y vota por el PAN*" [take what they give you and vote for the

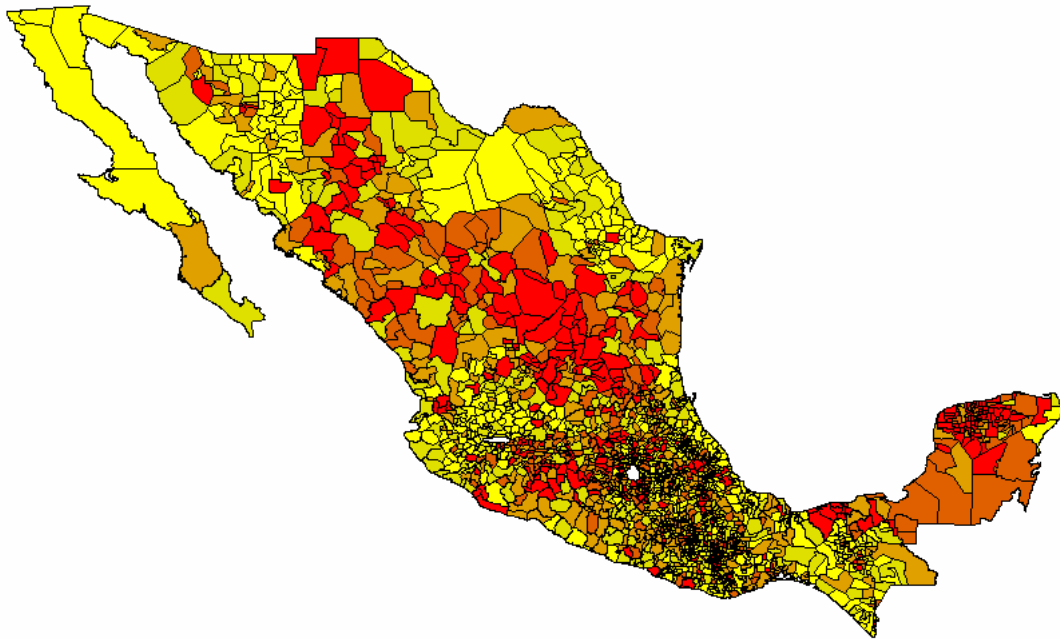
PAN]. This is the reason why clientelism works better when people's votes can be observed. Historically the PRI resorted to violating the secrecy of the ballot to monitor voters and to enforce this form of clientelistic exchange. However, as the opposition grew stronger, placing party representatives in more precincts, the PRI's leeway to violate the secrecy of the ballot diminished. The PRI continued to employ its electoral machine and its numerous "patrons" –*presidentes ejidales*, school teachers, union and community leaders, heads of *juntas de vecinos*, municipal presidents, etc – to get information about voters' types. By acquiring information about voters' political predispositions and past electoral behavior, the PRI was able to target clientelistic transfers to its loyal supporters and to withdraw these transfers from the non-loyal. In doing so, the PRI locked-in its base of support among the poor, who were most responsive to these transfers (Magaloni, 2006).

Thus, our work is the first to assess in a *quantitative way* a social fund in terms of the relative importance of clientelism vis-à-vis public good provision.⁷ We classify Pronasol into clientelistic versus non-clientelistic programs according to whether the benefits were targeted to individuals and small groups versus public goods targeted to localities. Around one fifth of Pronasol's funds were devoted to private good provision and two thirds to public good provision –although the relative importance of clientelism increased to one third in 1994. Figure 1.3 maps the average share of private goods in total expenditure during the six years of the program, for all the municipalities in Mexico. The darkest areas represent private good shares of more than 40%. It is obvious that clientelism was practiced throughout the country. However, the map also demonstrates

⁷ In this respect, our approach is thus analogous to Chhibber and Nooruddin's (2004) analysis of state-level budget allocations in India. They divide budget allocation into developmental public goods and private goods, which includes mostly state employment.

that vast areas of the country were not primarily clientelist but rather received more public goods. Clientelism was concentrated geographically in the Yucatán peninsula (the states of Yucatan, Campeche and Quintana Roo), and a strip of states in the North lying around the tropic of Capricorn (Sinaloa, Durango, Zacatecas and Tamaulipas). The border with the US was not particularly clientelistic. High clientelism allocations were also scattered in the center of the country around Mexico City, in the state of Chihuahua to the North, in the oil producing state of Tabasco, and in the Western highlands (what is also known as the Bajío region). Low shares of clientelism are observed in municipalities close to the US border, the coastline, and some (though not all) of the poor southern states (i.e. Chiapas). The pattern is thus not a North-South divide in which rich places receive larger shares of public goods, while poorer ones are characterized by clientelism.

Figure 1.3 The geographic distribution of clientelism in Mexico



The overwhelming majority of the municipalities were provided shares of private goods below 40 percent. As the program became consolidated throughout the years, it became more clientelistic: when Pronasol initiated in 1989, 25 percent of the funds distributed to the average municipality constituted private transfers; by 1994 the share had increased to 35 percent. With the exception of Chhibber and Nooruddin (2004), previous studies of clientelism have been unable to disentangle the effects of party system configuration and electoral risk from those of socio-economic development, since these variables tend to be correlated through time in the course of the modernization process. Our analysis allows us to separate the effect of socio-economic modernization from those generated by electoral dynamics. In terms of modernization, we find that clientelism was most prevalent at *intermediate ranges of development*. In terms of the political logic of clientelism, our findings support our contention that excludable-benefits *were primordially targeted to the PRI's core base of support*. We thus are able to demonstrate that the PRI used clientelistic transfers in an attempt to lock-in its core political clientele, heavily concentrated among the poor. The expectation of being punished, as well as the benefits received, kept these voters loyal generating a form of *perverse accountability* (Stokes, 2005), where poor voters kept on supporting the PRI in fear of being removed from the party's spoils system.

We also obtain that, controlling for levels of development, public good provision was more prevalent where there was *more political competition*, defined as places where there are more effective political parties, a finding that is somehow inconsistent with empirical results from India by Chhibber and Nooruddin (2004), who obtain that there was more clientelism in places that exhibit multipartisan configurations. Our results suggest

instead that political competition is virtuous, in that it generates incentives for politicians to invest in public goods.

5. The transition to targeting and programmatic redistribution: Progresa and Oportunidades

President Ernesto Zedillo (1994-2000) abandoned Pronasol despite its success in generating electoral support for the PRI. The Salinas' administration was severely discredited as a consequence of the 1994 Peso Crisis, erupting just after the presidential succession. Pronasol became a symbol of his administration's corruption and lack of transparency. To combat poverty, Zedillo introduced a highly targeted program that eliminated the lack of transparency in the allocation of social transfers to the poor. Progresa (Education, Health and Nutrition Program, now Oportunidades) was born in 1997 with the explicit objective to fight poverty through the investment in education and health of the poorest households in the country. The program consisted of three complementary elements: a cash transfer, thought to be primarily for food consumption, a scholarship, thought to cover the opportunity cost of children's labor so that they stay in school, and nutritional supplements. From September 1997 to 2000 Progresa was implemented mainly in rural areas. After Vicente Fox's victory in 2000, the program was expanded in rural areas, but in 2001 it was extended to urban and semi-urban areas using parallel criteria to select beneficiary families. For the last phase, the program was also transformed into a demand-type scheme where eligible people were not longer identified by the government, but they self-select to apply.

The coverage of Progresa/Oportunidades is impressive. At the end of 1999 Progresa covered approximately 2.6 million families or about 40% of all rural families. By 2005, Oportunidades covered 5.0 million families, of which 3.4 were rural, 0.8 are semi-urban and 0.67 urban. This meant that by that year more than half of the Mexican families in extreme poverty were recipients of these funds. The program’s budget has increased steadily since 1997, although the transfers per beneficiary have decreased slightly. Figure 1.4 shows the number of beneficiaries incorporated into Progresa/Oportunidades each year since its creation. The program has a clear upward trend, although a noteworthy feature is its stepwise behavior. No new beneficiaries were incorporated into the program in the years of federal elections. This was meant to be part of a strategy of the so called “shielding” of social programs that would protect them from criticism for being manipulated for electoral purposes.

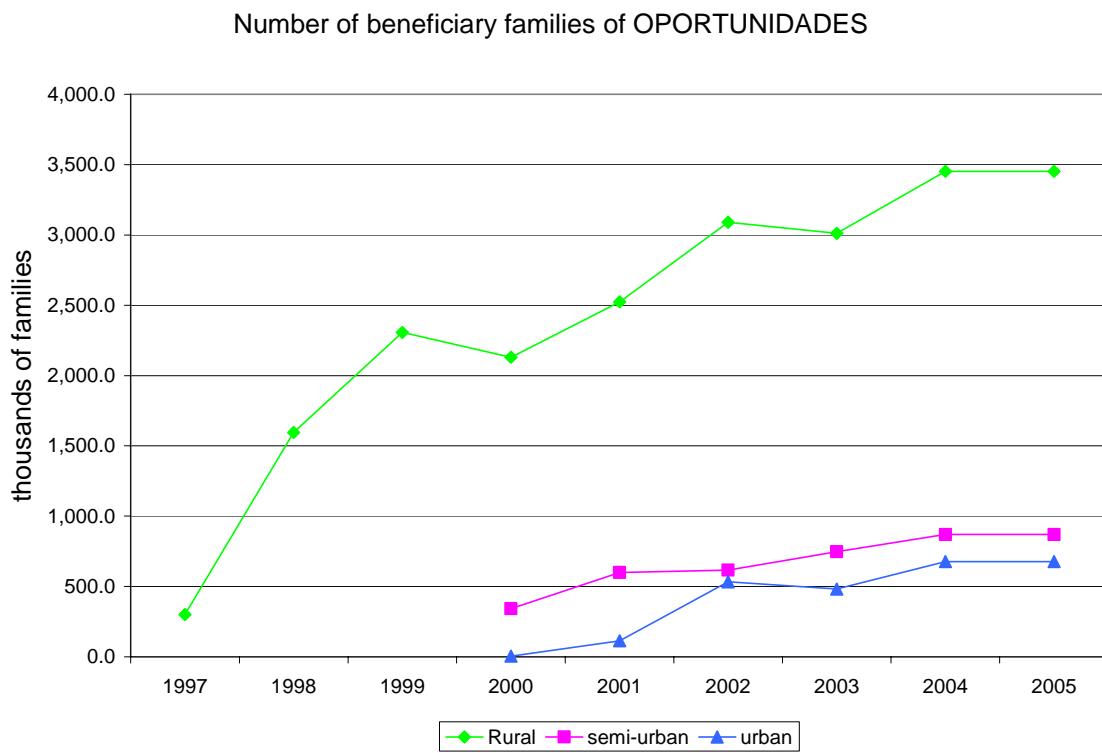


Figure 1.4

Progresa/Oportunidades is an example of what is known as a Conditional Cash Transfer (CCT) program through which the government provides money to poor families, conditional upon certain verifiable actions, generally investments in children's human capital and basic preventive health. Since the mid 1990s, CCT have been implemented in countries such as Brazil, Chile, Colombia, Ecuador, Honduras, Jamaica, South Africa, Turkey, Pakistan, Cambodia, Bangladesh, Ethiopia, Lesotho, and Burkina Faso. "This strategy is seen as particularly relevant in settings where demand-side stimuli are needed to ensure access to existing social services, notably health and education. As such CCT are being employed to redress the exclusion of the poor and vulnerable groups who have historically not benefited from public social programs (Briere and Rawlings, 2006: 13). Brazil's Bolsa Familia is the largest CCT in Latin America, covering 8.7 million families or close to a fifth of the population.

There are various advantages of CCTs relative to other social transfer programs. First, they are highly effective at targeting the poor. Most CCTs programs combine geographic and household targeting where areas are first selected based on marginality indexes and individual households are then chosen based on micro-census information (rural Progresa and rural Oportunidades) or on demand (urban Oportunidades).

The second advantage of CCTs is that the cash transfer can have both an immediate income effect for the beneficiary household, reducing poverty and inequality, while the behavioral condition can redress the inter-generational transmission of poverty by pushing poor families to invest in human capital formation and health. Progresa

originally required minimum daily school attendance and regular health care. Oportunidades has now added bonuses for school attendance and participation in health-awareness seminars.

The third advantage of CCT is that they significantly reduce the discretion of allocation decisions, leaving less room for political manipulation of the funds. Not only are funds distributed according to a technical criteria combining geographic targeting with a household assessment mechanism called proxy means testing (using multi-dimensional indicators that are correlated with poverty). Another essential element of these programs is that the individualized transfer *can't be discretionally assigned and withdrawn*, which is precisely what sets these apart from what we have labeled as clientelistic transfers, the private good transfers within the Pronasol.

The results of Progres/Oportunidades have been impressive. Experimental and quasi-experimental evaluations suggests important health and nutrition effects –increased total and food expenditures and caloric intake; improved child growth; increase in use in prenatal care and reduce child and maternal mortality; reduced incidence of smoking and alcohol consumption and improved treatment of diabetes. These evaluations also suggest improvements on educations –improved secondary enrolment, reduced drop-out rates and reduced child-labor.⁸

Moreover, in terms of the progressivity of public expenditure, Progres/Oportunidades is the most pro-poor of all major Mexican public policies. The World Bank has calculated in its public expenditure review for Mexico in 2005 that most public programs in Mexico are regressive, and that public expenditure in general is

⁸ See Maluccio, 2004; Olinto, 2004; Rawlings and Rubio, 2004; and Rawlings for summaries of the impacts of CCTs in Latin America. For Mexico in particular see

slightly regressive (World Bank, 2004). The only other national programs that have been progressive are school spending (preschool, elementary and lower secondary), health clinics for the uninsured population through the ministry of health (SSA), and Procampo transfers to peasants (Procampo replaced price supports for basic grains with direct cash payments). The most regressive programs have been those managed by the public employees social security institute (ISSSTE) and support for public universities.

Despite the enormous improvement compared to previous efforts at poverty alleviation, Oportunidades still suffers from a number of limitations, including the exclusion of many poor households due to the qualification rule (transfers are made only if there is a school and clinic in the community, which is not the case in some of Mexico's poorest localities); insufficiency of funds to effectively eradicate poverty; and lack of enough complementarities with other social assistance programs that seek to generate better quality services and to support income generating activities (de Janvry, 2006).

It is clear that in terms of poverty alleviation it is preferable to have a targeted technocratic program such as Progresa/Oportunidades than a more discretionary one such as Pronasol. However, highly targeted programs suffer from various *political limitations*. Pritchett (2005) explains these limitations in the following terms: "If the budget for redistribution is politically determined, the impact of targeting on the poor cannot be determined by a technocratic evaluation of the hypothetical impact of a given targeting design alone; it must account for the effect of changes in the degree of targeting on the size of the budget available for redistribution. It is possible that "more for the poor is

less for the poor” and that the less targeted program will deliver greater benefits for the poor (p. 1).

The implications of this argument are twofold. First, CCTs might remain largely under-funded such that the poor will receive fewer transfers than if more universalistic programs are used. Second, rather than keeping CCTs programs underfinanced, politicians might instead opt to expand their number of beneficiaries to cover not only the extreme poor but also the moderately poor, reducing the programs’ redistributive impact. The first was the avenue followed by Ernesto Zedillo, who created Progresa as a largely underfinanced social assistance program. After defeating the PRI in 2000, Vicente Fox from the National Action Party (PAN) followed a combination of these two strategies, choosing to expand Oportunidades to the cities, where his party’s political clientele disproportionately concentrates, while still spending little on the program.

To assess the importance of these programs, table 1.3 shows the federal government spending on “social insurance” (IMSS and ISSSTE) and “social assistance”, which includes a) Oportunidades; b) Procampo, the income-support program offering a cash transfer to low-income farmers per hectare independent of production levels; c) school scholarships; d) food-based programs such as Liconsa, Diconsa, DIF/FAM, tortilla; and e) labor programs such as Temporal Employment Program (PET) and Productive Alternatives (Opciones Productivas).

The first thing to note is that overall, social spending is relatively low in Mexico – 9.1% of GDP.⁹ Social protection spending is only 3%, but 72% of this spending is devoted to more regressive programs (IMSS and ISSSTE) and only 27% goes to the

⁹ Social spending in Mexico is much lower than in Argentina, Brazil, Chile, and Uruguay where in 2000 governments spent 21%, 12%, 17%, and 24% of their domestic products in social transfers (Lindert et al, 2006)

better-targeted social assistance programs, including Oportunidades. Note that spending in this poverty-alleviation program was only 0.3% of GNP in 2000.

Table 1.3. Federal Social Spending and its Composition, 2000

	Social Spending as a Share of GDP	Composition of Social Protection Spending
Total Social Spending	9.1%	
Education	3.8%	
Health	2.2%	
Social Protection	3.1%	100%
Social Insurance	2.2%	72%
Social Assistance	0.8%	27.4%
Social Assistance (% of total SA)		100%
Oportunidades (includes SEDESOL, education and health budget)		28.1%
PROCAMPO		19.6%
Education Programs (Scholarship programs and Communitarian School)		13.7%
Food Programs (DIF/FAM, tortilla, LICONSA, and DICONSA)		8.9%
Health Programs		8.6%
Temporal Employment		6.4%
Other		14.7%
Other Social Spending	0.1%	

Source: Lindert, Skoufias and Shapiro (2006)

This book addresses two fundamental questions about the politics of Progres/Oportunidades. First, we seek to understand the transformation of poverty transfers from discretionary clientelistic-based programs to technocratic well-targeted ones. We show that the creation of Progres was the consequence of a successful strategy by deeply committed technocrats who understood that their program could only be enacted if they kept a relatively limited budget, while at the same time giving large concessions to PRI politicians, who had an interest in maintaining discretionary and highly politicized programs such as Pronasol. The strategy succeeded because the true successor of Pronasol was the Fund for Municipal Social Infrastructure (FISM) that we discuss in the next section.

President Zedillo gave PRI governors and mayors access to vast resources through his decentralization reforms. Progres was a key strategy to prevent social turmoil and unrest, given that the most visible impact of the 1995-96 crisis was an alarming increase in poverty rates. In the midst of the macroeconomic problems of the peso crisis, the political exchange involved was largely successful. Although the overall amount of funds devoted to social expenditure decreased, mayors and governors had more discretion than ever before.

The second fundamental question about Progres/Oportunidades this book addresses is related to its *political consequences*. Some analyses have claimed that Progres was politically manipulated in its selection of beneficiaries. Rocha Menocal (2001) produced one of the earliest analysis reproducing the type of state-level analysis of Molinar and Weldon (1994) for Pronasol, but with Progres data. In a more sophisticated econometric specification, using municipal level data for 2000, Takahashi

(2006) suggests that Progresa was disproportionately allocated to municipalities governed by the PRI characterized by patterns of multiparty electoral competition (i.e. more than two effective number of parties). We find these arguments highly implausible despite econometric evidence supporting their claims. The correlation between tripartism and more Progresa funds might be spurious, driven by the fact that clinics and schools might not be found in the poorest Mexican localities where bipartisan and single-partisan configurations prevailed during those years. Therefore, the fact that these places were excluded from Progresa benefits might have little to do with partisan manipulation in *the selection process*.¹⁰

In this book we do not make statistical efforts to “uncover” a relationship between Progresa/Oportunidades allocations and political variables because we acknowledge that benefits were distributed according to a technical and quite sophisticated formula. Furthermore, we do not know of compelling stories suggesting extensive manipulation of the incorporation of Progresa/Oportunidades beneficiaries on the ground. There were plenty of such stories for the case of Pronasol, which is what compels us to examine political determinants in the allocation of those funds. But in the case of Progresa, we believe any hypotheses suggesting a political manipulation of beneficiaries is not guided by common sense and field experience. We believe that the selection of rural beneficiaries is clearly driven by a locality poverty mapping, and the accurate use of income surveys. The urban expansion of Oportunidades is a different issue.

¹⁰ Moreover, as Green (2006) has shown, the fact that the PRI has more support among poor voters means there is selection bias in any simple OLS statistical estimation. She uses a regression discontinuity method which suggests there is no effect of the allocation of Progresa on turnout and voting behavior. De la O (2004) finds, in contrast, a positive effect of Progresa on turnout and electoral behavior. We deal with this debate in chapter 8.

The political questions we do address are related to *credit claiming*. Did poor beneficiaries reward the PRI in the 2000 elections for this program? How did these voters behave after alternation of political power in office in 2000? Could the PAN profit from Oportunidades in the 2006 presidential races? These are fundamental questions. Progres/Oportunidades established real entitlements, where beneficiaries were received benefits because they satisfied certain objective poverty criteria, not because they voted for the PRI (or the PAN after 2000). Furthermore, unlike most extant programs of poverty relief, benefits from Progres/Oportunidades could not be withdrawn at will by the politicians according the electoral behavior of the beneficiaries. These characteristics set Progres/Oportunidades apart from clientelistic vote-buying programs, as we will further argue in this book, and should in principle work at liberating poor voters, who should no longer fear to “vote their conscience” and be cut off from the programs as a result. The political linkage between parties and voters so established is closer to the classic *programmatic redistribution* linkage, where benefits are distributed to individuals on the basis of their membership to certain groups –i.e., workers, the poor, women, illiterate, etc – and not their electoral behavior (Kitschelt and Wilkinson, 2006; Stokes, 2006). An implication of the establishment of Progres/Oportunidades should then be that poor voters finally were left free to vote as they pleased. With respect to the PAN administration of Vicente Fox, this book also assesses an important issue, namely the extent to which a right wing party can profit from following programmatic policies which are mostly geared towards favoring “natural” constituencies of the left.

6. The decentralization of social infrastructure: FDSM/FISM

The era of party hegemony was characterized by an impressive centralization of power. The fiscal federal arrangement witnessed an impressive centralization with the consolidation of the PRI (Diaz-Cayeros, 2006). The national government controlled most of the economic resources, which meant that state politicians had virtually no leeway to determine spending decisions. Governors depended on the center's largesse to finance social development projects, infrastructure and public works, and administrative expenses. Public investment was highly skewed in favor of some states and cities, most notably Mexico City.

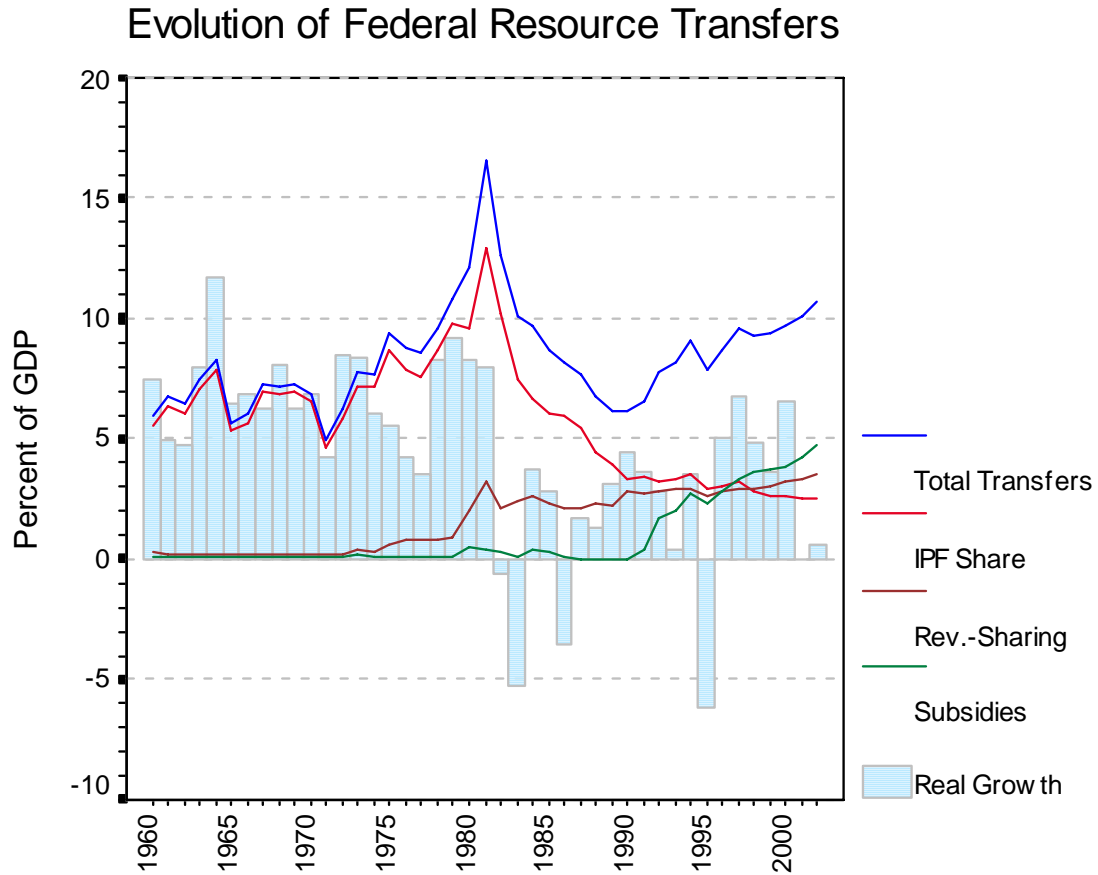
During the more competitive era, the PRI was able to employ this fiscal centralization to its advantage. It undermined the opposition by systematically diverting fiscal resources from states and municipalities controlled by these parties and rewarding its own with more funds (Rodríguez, 1989; Diaz-Cayeros, Magaloni and Weingast 2001). Without access to federal fiscal transfers, opposition governments faced enormous challenges to build solid party organizations at the local level.

The distribution of funds from the federation to the states is governed by formulas that were negotiated between the states and the federation within a “federal fiscal pact”, the National System of Fiscal Coordination. These formulas were originally drafted in 1980 to compensate rich states for the loss of revenue resulting from the introduction of a national Value Added Tax (VAT). Gradually, the formulas evolved in such a way that poorer states, where the PRI is stronger, receive increasing shares. After 1993, the federal government devolved to the states education expenditure and a few years later funds for health and basic municipal infrastructure were decentralized. By 1998, the various

subsidies granted by the federal government to finance the provision of public goods and services in the states were incorporated into the National System of Fiscal Coordination. Subsidies are supposed to be earmarked and conditioned in their use to further federal priorities. However, in practice states have ample leeway to allocate them.

Revenue sharing funds are the other major federal funds that states can spend with discretion. When the PRI lost the majority in the Chamber of Deputies in 1997, this party was forced to build coalitions with other political parties to pass legislation. The PAN conditioned support of the budget on more transfers and programs to the localities. Figure 1.5 reports the evolution of federal transfers to the states from 1960 until the present. We report total federal transfers, federal public investment (IPF), revenue sharing funds, and subsidies as a percentage of the states' average GNP. We also report the average real growth of transfers to the states in per capita terms. Except for the years of the oil boom in the late 1970s, there are significantly more resources to the states in the post-1997 era. Most of the increase after 1997 comes from revenue sharing funds and subsidies. Hence, a key difference in the contemporary period is that governors have virtually a free hand to use those resources at will, which was not true of funds in the 1980s. The increased fiscal decentralization takes place in the context of bursting local democratization, as measure by alternation of political power in office at the local level.

Figure 1.5



Source: Diaz-Cayeros, Estevez and Magaloni (2006)

Since the mid 1990s, before the PRI had lost its majority in the Chamber of Deputies, the federal government also began to move in the direction of achieving greater transparency in the allocation of resources to subnational governments. In 1996 a third of resources from budgetary item (or *Ramo*) 26 were transformed to a formula-based, poverty targeted transfer; increased to two thirds with the creation of the FDSM (Municipal Fund for Social Development) in 1997. The formula for the distribution of transfers was based on municipal-level poverty indicators and also on infrastructure

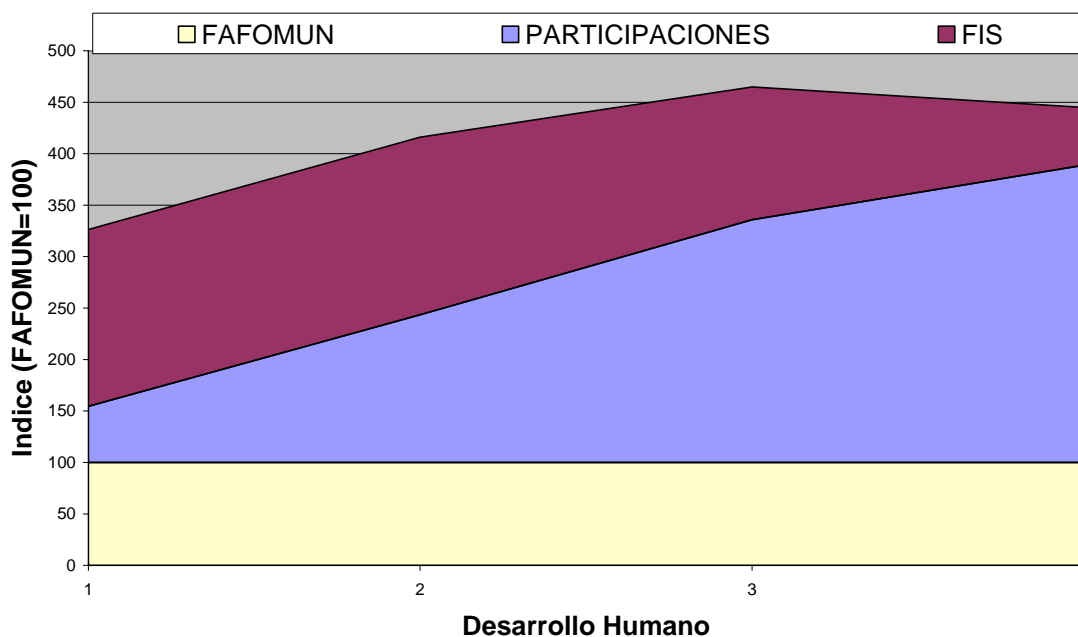
needs. The fund was incorporated into budgetary item 33 in 1998, when the federal *aportaciones* were also created, changing its name to the Fund of Aportaciones for Social Infrastructure, (FAIS) which includes two funds, one municipal and the other state level. The Law of Fiscal Coordination (LCF) establishes the characteristics, distribution and operation of item 33 funds. The LCF determines the distribution of education, health and security funds among the states, as well as the distribution of municipal funds such as the FAIS y FAFOMUN.¹¹

Although targeting has improved, it is still the case that wealthier municipalities receive more federal transfers. Figure 1.6 shows how the various municipal-level funds are distributed according to a municipal-level marginality index¹² (FOFAMUN, FAIS and revenue shares). The data is presented as an index because every municipality receives the same quantity of FOFAMUN in per capita terms. The figure shows that federal transfers to the municipalities increased dramatically with income. The FIS, for its part, constitutes a very important proportion of municipal-level funds for the poorest municipalities, and an increasingly insignificant share for the wealthiest.

¹¹ For a thorough examination of FISM see Diaz Cayeros and Silva, 2005.

¹² We employ the municipal-level marginality index, CONAPO, produced by the government. Details on the index are provided in chapters 2 and 3.

Composicion de Transferencias Totales per Capita



Note: the figure needs translation. Source: Diaz-Cayeros and Silva, 2005

Figure 1.5

A final task of this book will be to assess the *policy effectiveness* of fiscal decentralization in improving welfare, as measured by public good provision. We seek to compare the effectiveness of PRONASOL's public works projects in improving infrastructure (electricity, sewage, and water) relative to FISM's. The comparison is meaningful because it will allow us to understand the extent to which fiscal and political decentralization have been welfare enhancing.

7. The dimensions of social assistance programs

This book is about social assistance programs, the politics of how they are adopted and implemented. It also assesses the consequences of these programs, their effectiveness at improving welfare and at mobilizing electoral support for the politicians who enact them. Mexico has witnessed impressive transformations during the last decades. The rule of the long-lasting PRI came to an end and the country went through a protracted transition to democracy that culminated in the defeat of the PRI. The democratization transformed the functioning of the basic institutional apparatus and state-society relations. An impressive decentralization of fiscal authority also accompanied this political transformation.

On the other hand, and partly as a result of the democratization process, social assistance programs were dramatically transformed in two main respects. First, Mexico's "truncated welfare state" has gradually begun to expand with the creation of new programs which explicit aim is to target the poor, who are not covered by social insurance programs. The most prominent examples of these more targeted programs are Progresa/Oportunidades, but also Procampo and the recently instituted Seguro Popular. Second, the design of these new programs is radically different than previous programs, which aim was also to "help the poor," in that the criteria for allocation are formula-based as opposed to discretionary. This means that it is much harder for politicians to employ them to establish *clientelistic linkages* with poor voters through which they can credibly threaten to exclude those who fail to support them at the polls.

We highlight two relevant dimensions to study social assistance programs. Their first characteristic is the degree to which they can be *targeted*. Presumably, the more a

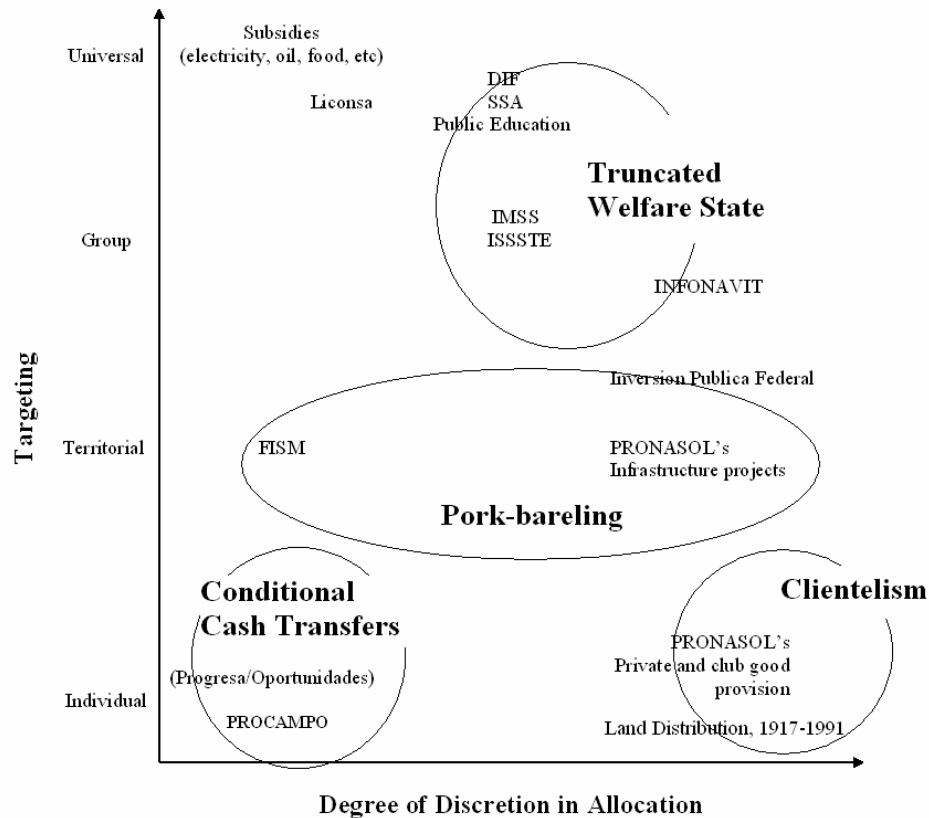
program can be targeted, the more its benefits can effectively be captured by the poor. Some programs are so universalistic that they have significant leakages, often making other income groups the main beneficiaries –food subsidies and price supports are the clearest examples. A second important distinction is the degree to which politicians on the ground retain discretion to determine *who benefits and until when*. Discretionary social assistance programs are highly politicized –they can be targeted to individuals according to their political loyalties and they can be withdrawn at any time. These programs are ideal for trapping the poor in a long-term political relationship based on material dependence and fear of being cut off from the benefits if they support a different patron at the polls. We call this political clientelism (see also Stokes, 2006 and Kitschelt and Wilkinson, 2006). We seek to understand in this book how this political linkage works, to measure its negative welfare effects, and to understand its abandonment for more democratic forms of electoral accountability for the poor.

Figure 1.5 maps some of the main social assistance programs discussed in this chapter into these two dimensions. The vertical dimension refers to targeting and it goes from universal programs from which everybody can benefit, to programs targeted to groups of voters, to programs targeted to territories, all the way down to programs targeted to individuals. The universal programs include, for example, food and price subsidies; and to a lesser extent public education and health services provided by the SSA to the uninsured (these are not so universal because many localities do not have hospitals or schools). Programs targeted to groups are IMSS, ISSSTE and INFONAVIT, targeted to formal sector workers. Those targeted to localities are Federal Public Investment (Inversión Pública Federal), Pronasol infrastructure projects and FISM. Finally, social

assistance programs targeted to individuals include Land Reform, Pronasol's private and club goods, Procampo, and Progres/Oportunidades.

The horizontal dimension refers to the degree of discretion in selection and reversibility criteria. The allocations in the most discretionary programs can be determined according to purely political criteria and can be withdrawn anytime. These include land reform, Federal Public Investment, Pronasol, and to a lesser extent Infonavit. The other extreme are formula-based programs. These programs might also have important political biases. A political party with strong base of supporters among workers, farmers, women, or the unemployed, for example, will have an interest in benefiting these voter groups. However, these political biases are *embedded in the formulas* and do not result from the politicians' discretion on the ground. Formulas restrain politicians' abilities to distribute benefits according to the voter's electoral behavior and to withdraw these benefits at will. Hence, to understand the political determinants of formula-based programs one must necessarily analyze coalition building in the legislative process.

Figure 1.5. The Two Dimensions of Social Assistance Programs



We group these social programs into four categories: programs belonging to the “truncated welfare state.” Our book is not about these. We focus, instead, on assessing the political logic of three other types of social assistance programs 1) “pork-barreling programs”, characterized by the fact that their benefits are territorially distributed, either according to a formula-based approach as in FISM or a purely discretionary approach, as in Pronasol. Benefits in these programs primordially consist of infrastructure projects. 2) “Clientelistic programs” that are targeted to individuals or small groups of producers and are discretionary (Pronasol and land reform fall in this category); and 3) “Conditional Cash

Transfers”, which are also targeted to individuals, but they are formula-based. Progresa/Oportunidades and Procampo fall into this category.

Our goal is thus to understand the workings of Pronasol, both its clientelistic projects targeted to individuals or small groups of voters, and its pork-barrel infrastructure projects targeted to municipalities. We also seek to understand the politics that led to the abandonment of Pronasol and the creation of Progresa/Oportunidades, on the one hand, and the politics of decentralization in the establishment of the FISM, on the other. Overall, what we observe in Mexico is a movement away from purely discretionary clientelistic programs of social assistance, to more formula-based programs which aim is to depoliticize the struggle against poverty. We also observe an impressive decentralization of infrastructure projects, from a period in which the main allocation decisions were made by the president’s office, to one in which thousands of individuals and hundreds of politicians get involved. This book assesses the effects of these dramatic changes in improving the welfare of the poor.